IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

ATARI, INC. a Delaware corporation, and MIDWAY MFG. CO., an Illinois corporation, Plaintiffs, vs. NORTH AMERICAN PHILIPS CONSUMER ELECTRONICS CORP., a Tennessee corporation, PARK TELEVISION d/b/a PARK MAGNAVOX HOME ENTERTAINMENT CENTER, an Illinois partnership, and ED AVERETT, an individual, Defendants.	Civil Action No. 81 C 6434 The Honorable George N. Leighton

PLAINTIFF MIDWAY MFG. CO'S
REPLY MEMORANDUM IN SUPPORT OF
ITS MOTION FOR DISQUALIFICATION
OF REUBEN & PROCTOR AS COUNSEL
FOR DEFENDANTS

I. Preliminary Statement

Defendant's rhetoric to the contrary, the actions of the Reuben firm in undertaking representation of the defendants in this case raises serious ethical questions. Reuben & Proctor does not deny the operative facts relevant to this motion: (1) that Mr. Maher rendered legal services to the Association by (a) arranging for and conducting meetings of the counsel for the Association members, (b) participating in the discussions regarding various legal theories and positions, including strengths and

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weaknesses, relating to copyrights involved in video games, (c) disseminating information to counsel for the purpose of establishing strong legal precedents in this field, and (d) monitoring proposed legislation in the copyright area; (2) that the Association members were united in a common interest to protect their video games and were directed by the Association to report their litigation activities to Mr. Maher; (3) that this very case was discussed in Mr. Maher's presence at a meeting to discuss the legal aspects of video game protection. In fact, Reuben & Proctor admits that it represented the Association, and tha David Maher was at the meetings of October 14 and 15 in which Mr. Katz discussed Midway's theory in this case.

Notwithstanding the Reuben firm's attempts to distinguish the Westinghouse and Glueck cases in which law firms were disqualified on the basis of prior or current representation of Trade Associations, the Reuben firm has failed to advance any fact or legal theory which would justify anything other than disqualification of the Reuben firm in this case.

II. THE REUBEN FIRM'S FACTUAL ARGUMENTS ARE MISLEADING

The Reuben firm makes a number of arguments in this case which have nothing to do with the merits of Midway's motion.

The Reuben firm's argument to the effect that Midway's motion is a "baseless litigation tactic" intended to delay the proceedings is absurd in view of the fact that Midway, the plaintiff, has already prevailed on its motion for preliminary injunction. In view of the Seventh Circuit's exhaustive opinion in this case, there can be little doubt that defendants will ultimately be liable for damages, profits, punitive damages and attorneys' fees to Midway and Atari. On this basis, Midway has no interest whatsoever in delaying trial on this matter. Indeed, the record in this case shows that it has been defendants, rather than Midway or Atari, who have sought to delay the

proceedings in this case. As this Court may recall, plaintiffs have inquired at motion calls before this Court as to when this case might be set for trial, while counsel for defendants has objected to the setting of a trial date. Contrary to the Reuben firm's argument, the only parties who stand to gain from any delay in the trial of this action are the defendants.

One example of the Reuben firm's disregard for the facts is its allegation that Midway did not raise the disqualification issue "for more than one month after [A. Sidney Katz] became aware of Reuben & Proctor's appearance in this suit." (the Reuben firm's Response p. 2). But as the record shows, the Reuben firm entered its appearance in this case on May 5, 1983, and Midway's motion was filed on May 25, 1983, twenty days later. The obvious error in the Reuben firm's argument is grounded on facts stated in the affidavit of David Maher. The statements in paragraph 9 of the Maher affidavit relate to the timing between the filing of a complaint in another "PAC-MAN" lawsuit pending before Judge Marshall. The fact that Mr. Maher made sworn statements that are obviously false as they relate to this case certainly impeaches Mr. Maher's credibility regarding this matter.

Another example of the Reuben firm's distortion of the facts in this case is its statement on page 3 that this case concerns allegations of "copyright infringement, unfair competition and deceptive trade practices involving PAC-MAN, a video game sold by Atari for home use and K.C. Munchkin a video game produced by North American." The fact is that this case involves a claim that defendants infringed Midway's copyright in the audiovisual work of Midway's coin-operated PAC-MAN video game. The licensed Atari home version of Midway's PAC-MAN video game did not appear on the market until after the premptive sale, without benefit of a license, by defendants of the infringing K.C. Munchkin game.

The Reuben firm's attempt to gain support for its position by the fact that Atari, Inc. has not filed a Motion to Disqualify is completely without basis. Atari's statement attached hereto as Exhibit A clearly shows that the Reuben firm's implied assertion is untenable.

III. AN ATTORNEY-CLIENT RELATIONSHIP EXISTED BETWEEN THE REUBEN FIRM AND MIDWAY

The Reuben firm's attempt to attack the obvious attorney-client relationship that exited between it and Midway with respect to PAC-MAN copyright litigation is based on two faulty theories.

The Reuben firm's argument to one effect that there was no attorney-client relationship in the absence of a formalized retention agreement is contrary to the Seventh Circuit's decision in Westinghouse Electric Corp. v. Kerr-McGee Corp., 580 F.2d 1311 (7th Cir. 1978). There the Court expressly rejected the proposition that the parties must expressly or impliedly consent to the formation of an attorney-client relationship for one to exist. Indeed, the court noted that the relationship "hinges upon the client's belief that he is consulting a lawyer in that capacity." Id. at 1319 (emphasis added). As noted in that case, "'The deciding factor is what . . . the client thought . . . not what the lawyer thought'" Id. at 1319, n. 14 (quoting R. Wise, Legal Ethics (1970) 284.

There can be no question that Midway's counsel A. Sidney Katz believed and on the basis of the facts discussed in Midway's main brief had every right to believe that Mr. Maher and the Reuben firm was serving as its legal counsel in connection with the protection and enforcement of its video game copyrights. (See Katz Aff. ¶¶ 6, 14). Also, Dr. Martin Keane of Bally Manufacturing Corporation shared Mr. Katz's perception that Mr. Maher was representing Midway's interests in these matters. Keane Aff. ¶6, Exhibit B.

Further, this belief is not rendered less reasonable by the fact that the Reuben firm also represented the Association. As the court observed in E.F. Hutton & Co. v. Brown, 305 F.Supp. 371, 388 (S.D. Tex. 1969), an attorney can represent a company and an individual simultaneously where their interests are harmonious:

> Brown's awareness that counsel were representing Hutton could not have caused him to doubt that they were representing him as well.

The client's good-faith belief in the existence of the relationship is not overcome by an attorney's after-the-fact denial of such relationship such as the Reuben firm as done here (Response, p. 8). Thus in Oliver v. Kalamazoo Board of Education, 346 F.Supp. 766 (W.D. Mich. 1972), aff'd, 508 F.2d 178 (6th Cir. 1974), an attorney-client relationship was found to exist in the face of strong denials by attorneys for the entity who urged that they "never represented the individuals . . ." and that they "do not represent the individuals, just the entity of the Board." 346 F.Supp. at 788. Nevertheless, the Court concluded that counsel for the School Board was in an "attorney-client relationship" with Board members "with respect to school activities." Accord, E.F. Hutton & Co. v. Brown, 305 F.Supp. at 376. Thus, Mr. Maher's denial of the attorney-client relationship does not negate the fact that he, indeed, did have an attorney-client relationship with Midway in regards to Midway's audiovisual works including PAC-MAN.

The Reuben firm further asserts that no attorney-client relationship could exist because other Association members were Midway's competitors. This claim borders on the absurd in light of the holdings in Westinghouse, supra and Glueck v. Jonathan Logan, Inc., 653 F.2d 746 (2d Cir. 1981). In both cases, an attorney-client relationship was found to exist between the attorney of the trade association and an individual member of that association. In both cases, the members of the associations were "competitors". In fact, the court in Glueck directly addressed the issue of disclosures made in the presence of "competitors" and noted that confidences could be disclosed at

association meetings despite the fact that the members were competitors since these members were "united in interest" in relation to specific issues. As amply demonstrated in Midway's main brief and affidavit, the Association members were united in the interest of protecting their audiovisual works. The fact that they might compete in the industry, or at times even engage in litigation with each other on unrelated issues[2] is absolutely irrelevant.

Contrary to the Reuben firm's assertion, Midway, in its main brief and affidavits of A. Sidney Katz and Dr. Martin A. Keane, has demonstrated that confidential information relating to its video game PAC-MAN was in fact transmitted to the Reuben

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[2]The two cases which the Reuben firm cites for the proposition that Midway was at times an adverse party with other Association members involved issues completely unrelated to this case. In Williams Electronics, Inc. v. Bally Mfg. Corp., No. 82 C 2167 (N.D. Ill. 1982), the plaintiff brought suit against Midway's parent, Bally Manufacturing Corporation, for copyright and trademark infringement of a pinball game. At no time were the copyrightability of an audiovisual game, the copyrightability of a computer program, or the PAC-MAN video game — the subject of Mr. Katz's disclosures — at issue in that case. Publications International Ltd. v. Bally Mfg. Corp., No. 82 C 2183 (N.D. Ill. 1982) involved a dispute regarding publication of two books regarding the PAC-MAN game. The protection of video games was never at issue. Further, the lawsuit had nothing to do with Gremlin/Sega, a member of the Association, who is a subsidiary of Gulf & Western. In that case, Gulf & Western, the parent, voluntarily took a consent judgment.

The Reuben firm's position is further undercut by the fact that Midway has cooperated with these same Associaton members in lawsuits related to their common interest — the protection of video games. On February 3, 1982, Midway filed an amicus brief in support of Williams' position in Williams v. Artic, 685 F.2d 870 (3d Cir. 1980) regarding the copyrightability of audiovisual works in video games. Likewise, Midway supported and cooperated with Gremlin/Sega in bringing an action in the federal district court for the Middle District of Florida against infringers of video games. (Cohen Aff., ¶3, Exhibit C) Similarly, Midway filed an amicus brief on behalf of Stern Electronics, Inc., another Association member, in its action against infringers of video games. Stern Electronics, Inc. v. Kaufman, 669 F.2d 852 (2d Cir. 1982). Clearly, these actions demonstrate that Association members are "united in interest" in regards to the protection of video games.

firm. As was pointed out in his affidavit, Mr. Katz disclosed "Midway's legal positions, evidence and strategy of litigation and documentation relating to the PAC-MAN copyrights and copyrights in other games" (Katz Aff. ¶6). Further, Dr. Martin A. Keane, Vice President and Corporate Director of Technology of Bally Manufacturing Corporation discussed sensitive information regarding the "technical matters involved in the design of video games" and the "functional electronic and computer parts of the PAC-MAN game" (See Keane Aff. ¶4). As pointed out by Mr. Katz and Dr. Keane, these disclosures were made with the expectation of confidentiality among the group who shared a commonality of interest and would not have been made if any party adverse on these issues was present. (Katz Aff. ¶12, Keane Aff. ¶6). Moreover, as pointed out in Midway's main brief, it is not necessary for the Court to require Midway to show that the Reuben firm had "access to confidential information or to inquire into specific confidences disclosed to invoke the mandate of Canon 4.[3] "The attorney-client relationship raises an irrefutable presumption that confidences were disclosed." Fred Weber, Inc. v. Shell Oil Company, 566 F.2d 602, 608 (8th Cir. 1977).

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[3]The Reuben firm makes a vague suggestion that the fact that confidences were disclosed by Midway's lawyer as opposed to a layman somehow rebuts the existence of an attorney-client relationship.

Quite to the contrary, an attorney, who is familiar with the bounds of an attorney-client relationship and can readily identify sensitive or confidential information is in a better position to judge when such relationship arises or when such information is disclosed. In addition, sensitive information regarding technical matters relating to PAC-MAN were disclosed by Dr. Martin Keane, of Bally Manufacturing Corporation, a layman (Keane Aff. ¶4).

Further, the Reuben firm uses the Westinghouse case for support that a critical factor is the submission and belief of a layman as opposed to a lawyer. This distinction cannot be found in the Westinghouse case since that Court gave great weight to the affidavit submitted by Gulf's Washington counsel indicating that he was under the impression that the Kirkland firm was representing both the trade association and Gulf. Westinghouse, supra 580 F.2d at 1319-20.

Further, even if some of the information learned by the Reuben firm was in the public domain[4] as the Reuben firm asserts (Response, pps. 9, 12), the law still regards all such information as confidential. As the court explained in Emle Industries, Inc. v. Patentex, Inc., 478 F.2d 562, 572-73, quoting from H. Drinker, Legal Ethics 135 (1953):

> The client's privilege in confidential information disclosed to his attorney is not nullified by the fact that the circumstances to be disclosed are part of a public record, or that there are other available sources for such information, or by the fact that the lawyer received the same information from other sources.

See also Harry Rich Corp. v. Curtiss-Wright Corp., 233 F. Supp. 252, 254 (S.D.N.Y. 1964) where the court said that any factual disclosure by a second client to an attorney, "no matter how innocuous and irrespective of availability of the same information from outside sources" warrants protection where the attorney fails to disclose a potential conflict between that client and another client.

For the Reuben firm to suggest that the presumption that confidences were disclosed exists only in a "formal relationship" and not in an "implied" one is absolutely unfounded and has no support in any case. The mere notion that such a distinction should be made flies directly in the face of well-settled law and policy that the presumption is an "absolute necessity if the goal sought by Canon 4 is to be achieved." Fred Weber, supra 566 F.2d at 608.

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[4]The Reuben firm asserts that the exhibits attached to Midway's main brief do not involved the exchange of sensitive or confidential information, yet threaten to move to hold Midway in contempt for including them as part of the material covered by a protective order. Inherent in the nature of a protective order is the notion that all documents subject to such order are "sensitive and confidential."

It should be noted that all Exhibits to Midway's main brief were filed with the Court in a sealed envelope with a notification that they were "confidential."

IV. The Reuben Firm's Prior Representation of Midway Is Clearly "Substantially Related" to this Litigation

The "substantial relationship" between the Reuben firm's representation of Midway and the subject matter of this case is so "patently clear" that the Reuben firm has not even attempted to argue the issue, but merely has included conclusory statements and string citations to support its position (Response, p. 11). In fact, "it would be difficult to think of a closer nexus between [the prior and present] issues." Government of India v. Cook Industries, Inc., 569 F.2d 737 (2d Cir. 1978) (holding that inquiry into defendant shippers' loading procedures in prior case alleging fraud was substantially related to fraud claim in the case at bar).

While the Reuben firm has not provided any facts of the cases finding no substantial relationship, even a cursory examination of those facts reveals that they are in no way applicable to this case. In The Foxboro Company v. Spectrum Associates, Inc., 213 U.S.P.Q. 439 (D. Mass. 1981), the previous representation involved a single patent application wholly unrelated to any of the trademarks at issue in the disqualification case. In Moyroud v. Itek Corporation, 528 F.Supp. 707 (S.D. Florida) two totally different patents were at issue. Clearly, here when this very case was the subject of discussion between Midway's counsel and Mr. Maher of the Reuben firm in the course of Mr. Maher's representation of the Association and Midway, there can be doubt that the substantial relationship test has been met.

More illuminating in determining the substantial relationship here is LaSalle National Bank v. County of Lake, 703 F.2d 252 (7th Cir. 1983). In that case, the lawyer whose disqualification was sought had served as Lake County's principal legal advisor with respect to all civil matters. In that capacity, he was privy to discussions and strategic thinking about various sewage agreements negotiated and signed by Lake County with various municipalities. The court held that even though the lawyer had not been involved in the precise agreement which was at issue in the case at bar, the fact

that he had access to discussions regarding the agreements generally made it reasonable to infer that confidential information would have been given to him, that that information was relevant to the issue at bar, and thus the substantial relationship existed.

The LaSalle case is clearly applicable to this case. Here, Mr. Maher served as legal advisor to the Association and assisted the Members, including Midway, in protection of their video games. Mr. Maher was privy to Midway's discussions and strategic thinking regarding the copyrightability of its PAC-MAN game as an audio-visual work. It is reasonable to infer that confidences relevant to this case where the copyrightability of the game is at issue would have been given to him — as indeed they were. There can be no question that the "substantial relationship" as defined by the Seventh Circuit has been shown.

V. THE REUBEN FIRM MUST BE DISQUALIFIED UNDER CANON 9

> While "appearance of impropriety" as a principle of professional ethics invites and maybe has undergone uncritical expansion because of its vague and open-ended character, in this case it has meaning and weight. For a law firm to represent one client today, and the client's adversary tomorrow in a closely related matter, creates an unsavory appearance of conflict of interest that is difficult to dispel in the eyes of the lay public — or for that matter the bench and bar — by the filing of affidavits....
>
> Clients will not repose confidences in lawyers whom they distrust and will not trust firms that switch sides as nimbly as Schwartz & Freeman.

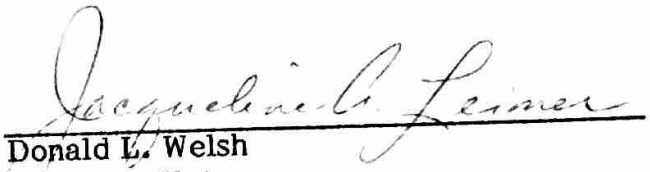
Analytica, Incorporated v. NPD Research, Inc., Nos. 81-2437, 82-1273, 82-1390, slip. op. at 10-11 (7th Cir. May 31, 1983).

This latest pronouncement from the Seventh Circuit clearly undercuts the Reuben firm's assertion that the mandate of Canon 9 is viewed lightly in this circuit. The Reuben firm seeks to represent a client today against its client of "yesterday" in a closely related matter. Law firms must not be allowed to switch sides as nimbly as Reuben & Proctor.

VI. CONCLUSION

For the reasons set forth in Midway's main brief and those set forth in this Reply, Midway asks this Court to enter a final order disqualifying the Reuben firm from further representation of the defendants in this matter, and such other or further relief as the Court deems just and proper.

Respectfully submitted,



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CERTIFICATE OF SERVICE

It is hereby certified that a copy of PLAINTIFF MIDWAY MFG. CO.'S REPLY MEMORANDUM IN SUPPORT OF ITS MOTION FOR DISQUALIFICATION OF REUBEN & PROCTOR AS COUNSEL FOR DEFENDANTS has been served by hand delivery to:

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James H. Alesia
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Chicago, IL 60603

and

David E. Springer
Kirkland & Ellis
200 East Randolph Drive
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on this 14th day of June, 1983.

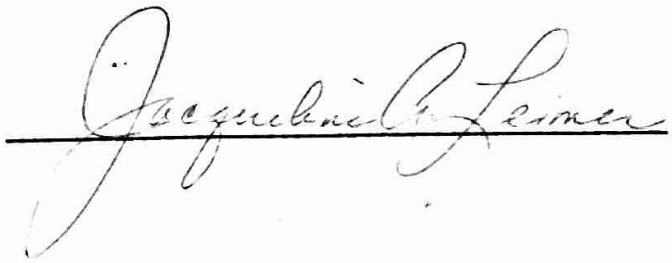

EXHIBIT A

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

ATARI, INC., a Delaware corporation, and MIDWAY MFG. CO., an Illinois corporation, Plaintiffs, vs. NORTH AMERICAN PHILIPS CONSUMER ELECTRONICS CORP., a Tennessee corporation, PARK TELEVISION d/b/a PARK MAGNAVOX HOME ENTERTAINMENT CENTER, an Illinois partnership, and ED AVERETT, an individual, Defendants.	)	Civil Action No. 81 C 6434 (Hon. George N. Leighton)

STATEMENT OF ATARI, INC. REGARDING THE MOTION TO DISQUALIFY THE FIRM OF REUBEN & PROCTOR

Midway Mfg. Co., Atari's co-plaintiff in this action, has moved the Court to disqualify the firm of Reuben & Proctor. Atari has decided not to join in Midway's motion. Defendants,

however, improperly argue that Atari's decision weighs against Midway's request:

> There are two plaintiffs in this copyright case, both members of the Association and, arguably, both in a position to object to Reuben & Proctor's involvement in this case on the basis of prior representation of the Association. Yet, Atari, Inc. ("Atari") did not move for disqualification of Reuben & Proctor. Only Midway filed a disqualification motion and, simultaneously, in a patent suit pending in this court, The Magnavox Company v. Bally Midway Mfg. Co., No. 83 C 2351, threatened Reuben & Proctor with a motion for disqualification.

(Def. Br. 2).

Defendants should receive no legal advantage, nor derive any comfort, from Atari's decision not to pursue its disqualification claim against Reuben & Proctor.*/ Any client may elect to forego prosecuting a conflict of interest claim against a firm which formerly represented it. That Atari, on its own, should choose to pursue this course cannot, as a matter of law, prejudice Midway's rights.

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*/ Atari's forebearance extends only to this case. Moreover, it rests on the facts presently known. New facts could come to Atari's attention which could yield a different result.

Moreover, as the contestants' papers reveal, Atari stands in a different position than Midway. Midway's motion rests, in part, on its claim that one of its trial counsel, Mr. Sidney Katz, shared "legal positions and strategies" relating to this case with Mr. David Maher, a partner of the Reuben firm. (Katz Aff. ¶¶8-11). Although an in-house lawyer for Atari, Ms. Karen Witte, was present at the relevant meetings, she was and is not directly involved in this case and therefore did not, and could not, share Atari's "legal positions and strategies." From Atari's point of view, this distinction makes a difference.

Midway's motion should be decided on its own merits. Nothing Atari did, or did not do, can affect Midway's rights. Defendants' suggestion to the contrary required Atari to file this statement.

DATED: June 14, 1983

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IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

TARI, INC., a Delaware corporation, and IDWAY MFG. CO., n Illinois corporation, Plaintiffs,	)	
vs.	)	Civil Action No. 81 C 6434
NORTH AMERICAN PHILIPS CONSUMER ELECTRONICS CORP., a Tennessee corporation, and PART TELEVISION d/b/a PARK MAGNAVOX HOME ENTERTAINMENT CENTER, an Illinois partnership, and ED AVERETT, an individual Defendants.	)	Judge George N. Leighton

AFFIDAVIT OF ERIC C. COHEN

Eric C. Cohen deposes and says that:

1. I am an attorney admitted to the bar of the State of Illinois and admitted to practice before this Court as a member of the trial bar.

2. For the past three years I have represented Bally Midway Mfg. Co. (formerly known as Midway Mfg. Co.) ("Midway") in matters concerning infringement of copyright in video games manufactured by Midway.

3. In the summer of 1982, Gremlin/Sega, a company which makes video games in competition with Midway, was investigating infringers of its copyrights in central Florida. At the same time, Midway was also conducting an investigation in central Florida, and, as it turned out, was using the same investigator. Counsel for Midway and counsel for Gremlin/Sega coordinated their investigation of the video game copyright infringers, filed their separate actions on the same day, and obtained parallel ex parte temporary restraining orders and seizure orders against the same defendant.

Eric C. Cohen

Subscribed and sworn
to before me this
day of June, 1983.

Notary Public -
My Commission
Expires: 4-25-87